

# World Bank Chief Spells out Conditions for Development in Third World Countries

by M Syeduzzaman

The Daily Star Guest Columnist

WASHINGTON DC: My professional career brought me opportunities to work with three Presidents of the World Bank. Working for four years on the World Bank Board with Robert S McNamara as the President was a unique experience. This was the period when Mr McNamara had moved the Bank into "new style" operations from its predominant role of financing hardware-based infrastructure and industrial development involving many large projects throughout the developing world. The "new style" operations focused on rural development, irrigation with attention to small farmers, primary education, health and nutrition.

When Mr McNamara left the Bank in 1981 after leading it for thirteen years, he was succeeded by A W Clausen, then President of the Bank of America. This was a period when IDA operations were growing in Bangladesh and I was asked by the Government to continue for another year as Alternate Executive Director in the period of transition with a new President in the Bank. Mr Clausen left the Bank in 1986 serving as one term (five years) President. In the one year that I worked with him I could already see that it was a different Bank. That impression was confirmed when I met with him several times afterwards as Bangladesh Governor of the World Bank. Mr Clausen's signal contribution to the Bank was his innovative arrangements for raising resources through co-financing and currency swaps.

Barber B Conable was a name somewhat unfamiliar in most developing countries when it was announced that he would succeed A W Clausen as President of the Bank. But in the United States he enjoyed considerable respect and was an influential member of the Congress having served there for several terms. Mr Conable certainly came to the Bank with a bang. He took the Bank through one of the most expensive management review and reorganization which cost the institution hundreds of millions of dollars. Hundreds of staff members at different levels were given "golden handshake" in the reorganized Bank. The new management system reportedly created a 'morale' problem among the staff including many who lost their positions. But sooner than expected, he was able to restore the morale and to provide inspiring leadership. His emphasis on reduction of poverty, on expansion of primary education, improving the position of women in developing societies, his concern for "safe motherhood", and his forceful advocacy for protection of the environment for sustainable development brought him out as a man of great compassion. But all along the way he continued to emphasize the need for setting right priorities and on efficiency in economic management. Private sector emphasis is a direct outcome of this quest for priority and efficiency. He has shown great political sagacity in negotiations with the major shareholders who provide the resources for the Bank. In the last couple of years, he has highlighted the importance of good governance and of reduction in unproductive expenditure in promoting economic development.

When Mr Conable leaves the Bank on September 1, 1991, some of his strengths may be a handicap for his successor. He was able to obtain a significant capital increase for the Bank and got through IDA IX replenishment. These were at a time when many would consider them impossible in the face of budgetary pressure of the US Government. It is believed that before he leaves, he would be able to get through the controversial capital increase of the IFC (International Finance Corporation, the private sector arm of the World Bank). All these are taken as personal tributes to Mr Conable for his influence on the Congress, the respect he enjoys with the US Congress, and last but not the least, his personal friendship with the US President George Bush. But would the same success and their basis make the Bank more and more dependent on the US Government? It would be interesting to watch this when Lewis Preston succeeds Barber Conable as the next President of the World Bank.

I had the opportunity of seeing Mr Conable at work in my capacity as Finance Minister of Bangladesh. During my current visit to Washington, I thought of interviewing the three Presidents I had the privilege to know. Unfortunately Mr A W Clausen lives in California and I could not make it. I found many similarities in the approaches of Messrs McNamara and Conable — in the areas of poverty reduction, good governance and reduction of military expenditure in the developing countries. But Mr McNamara feels more strongly about the modalities for approaching some of these objectives. While Mr Conable feels that there has been no weakening of the international organizations including the World Bank, Mr McNamara is said to believe that they should be further strengthened.

My discussion with Mr Conable, which was in a question and answer format are reproduced below.

Syeduzzaman (SZ): Mr President, what would you consider to be your major achievement as President of the World Bank and how do you see the role of the Bank in the 1990s building on those achievements?

Barber Conable (BC): I am happy to say that I am leaving at a time when the Bank is in good shape. It has now got the necessary resources

to address the needs of the developing countries, and it has a highly competent and motivated staff working under an effective management system. The Bank enjoys the respect of the donors as well as the borrowers for effectively addressing the development problems in the most difficult period of the 80s. The Bank is now able to focus searchlight on critical development issues from structural adjustment to environment which are so vital for sustainable development, and we have been able to recapture the poverty focus. It is now realised by the donors as well as the borrowers that development is a complex process, needs long commitment and not a brief flurry of activities. The World Bank has now the capacity to analyse and advise on how to capture those in the developing countries who are being bypassed by the development process.

SZ: You have focused on reduction of poverty particularly in the poorest countries including Bangladesh, as the major objective of

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the Bank. Was it not always the traditional objective of economic development and development strategies? If we look around the developing world where significant progress has been made in reducing poverty such as China, Indonesia and even India, one would note that these countries did not obtain significant amount of Bank resources compared to their total development investment. How would you comment on this?

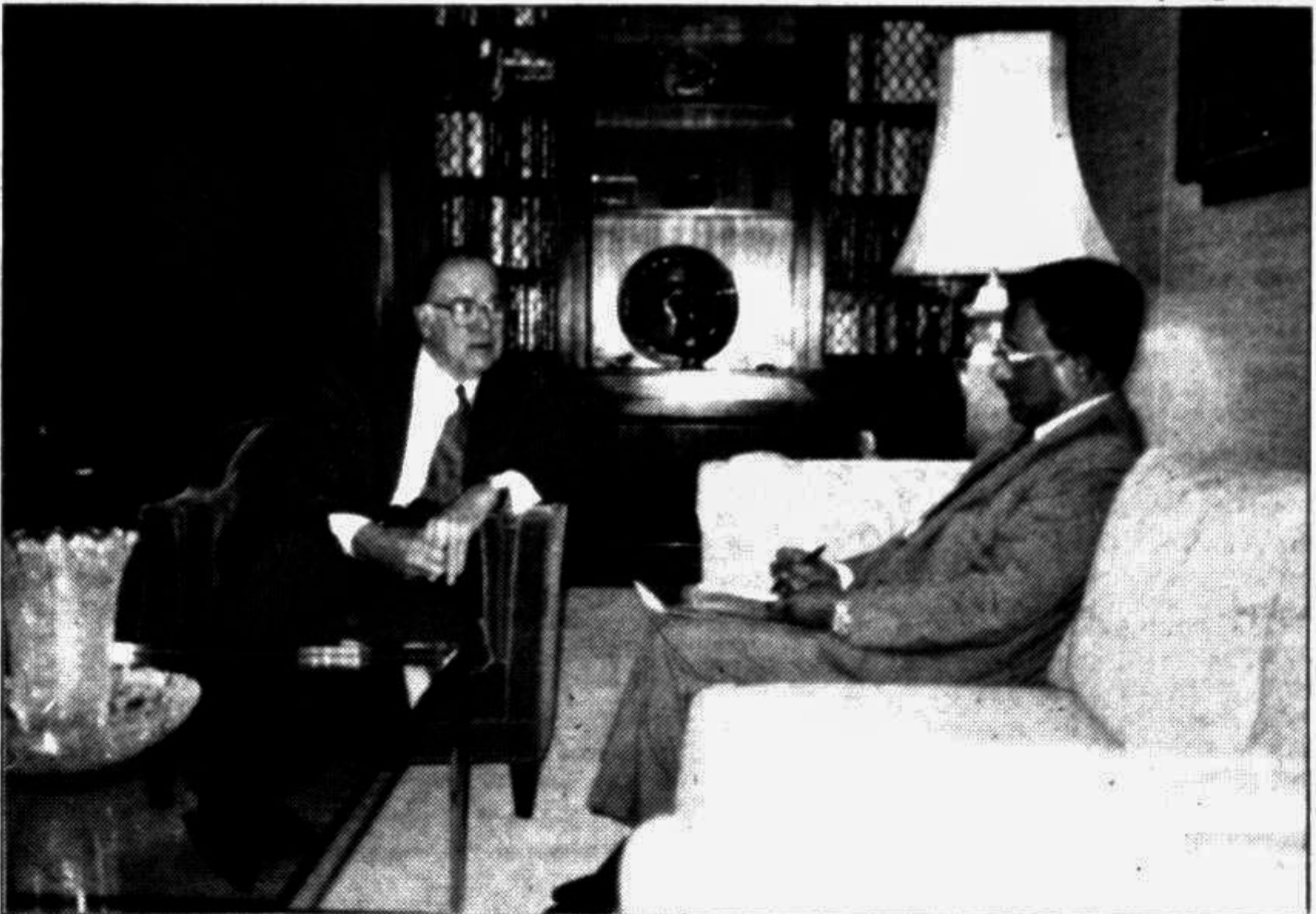
BC: It is true that reduction of poverty was always the objective of development strategies. But most development economists and strategists thought that macro-economic growth by itself was going to destroy poverty. This has proved to be illusory. In the case of Indonesia the Bank has certainly played an important role through policy advice and has also played a catalytic role for obtaining substantial resource support from other donors and institutions. The Bank and the Indonesian Government

for reduction of poverty must realise that the condition for children needs to be improved.

We are constantly making efforts to extend our relationship with other international agencies like the UNDP and the UNICEF. Undoubtedly each one can play an effective role.

SZ: Along with emphasis on reduction of poverty the Bank has also been advocating for a greater role of the private sector in the developing countries. To the best of our knowledge the Bank has not yet established any direct correlation between greater role of the private sector and reduction of poverty. Basically it would appear to be the "trickle down" approach through generation of employment. Secondly, critics have suggested that while increased role of the private sector is a desirable policy objective in many developing countries, this is also associated with increase in the level of corruption and rent seeking activities. How would you like to comment on these views?

BC: Let me tell you that private sector development is neither a panacea nor a goal which developing countries have to pursue. It is a modality of economic management. Worldwide experience over time definitely shows that this does result in improving economic efficiency. The impact on poverty reduction can be direct as well as indirect. In many developing countries resources have been pre-empted by parastatals leading to budget deficits and reduction in expenditure on education and health, for example. Resources can be saved if Government withdraws from what can be done better by the private sector. I think it is correct to say that in today's world there is no ideological competition and there is a new consensus that market forces make for economic efficiency. Relying on market forces in a competitive environment is an efficient economic technique and developing countries are well advised for adopting these



The President of the World Bank Barber B Conable (left) talks to M Syeduzzaman, during an exclusive interview to The Daily Star, in Washington DC

were able to agree on investment priorities and policy reforms which had a significant positive role on reduction of poverty. In the case of China, we have been able to extend our policy advice and the Chinese Government has shown willingness to undertake investments and experiments with our resource support, particularly in agriculture. We believe that this is going to help China in further reduction of poverty. In the case of India the Bank has provided critical resource support in the key sectors including irrigation. On the basis of our dialogue we notice a significant shift in India's policy. The current economic difficulties have prompted greater willingness to undertake more reforms in economic management. We are happy that we were able to agree with India on IDA lending for primary education, a very important area related to poverty reduction.

SZ: How far has the Bank been influenced by other international organizations such as the UNDP and the UNICEF in focusing its attention on reduction of poverty?

BC: One of the values of UNDP work is that it helps to focus on what happens to people. We must look at the way people live, the level of literacy, life expectancy, maternal and child death rate etc. UNDP analysis has demonstrated that looking at these aspects of people's life is of far greater importance than mere growth in per capita income. UNICEF focuses on a very delicate and dependent part of the poverty structure, the children in the developing world. Any strategy and programme

modalities for doing things well. I don't believe that growth of private sector activities has led to greater corruption and rent seeking. The biggest sources of corruption in most countries are the discretionary and regulatory powers of the Government. Corruption and rent seeking activities emanate from discretionary authority of Government functionaries and agencies at the interface between public and private sectors.

SZ: We have noted with great interest your recent observations and emphasis on good governance and reduction of military expenditure. How can the Bank put these into practice? Would you not agree, looking at East Asia and South-East Asia, that economic development has been associated with different forms of Government — democratic or otherwise? How is the Bank going to determine what level of military expenditure is adequate or appropriate for a particular country?

BC: By good governance I want to mean accountability, transparency, adhering to the rule of law, and predictability. These are aspects of governance which directly affect development. I should also add that reforms should be irreversible and not dependent on the wishes to one person. This can come through a process which is transparent and participatory. As for reduction in military expenditure, this matter has to be discussed at high levels in the Governments as well as between Governments and the donors. This is not a subject which can be left to be handled by bright young economists or MBAs. Analysis by UNDP has shown that in many developing countries military expenditure exceeds those on education and health. This is certainly not desirable. We are working with many developing countries on appropriate priorities of public expenditure.

SZ: Bangladesh is the largest "IDA only" country characterized by acute poverty, high population density and extreme vulnerability to natural disaster. Donors' support has been generous, but there is a feeling that there are too many macro and micro conditionalities attached to aid support. Would it not be better to replace these numerous conditionalities by only one macro conditionality, namely increase in public savings every year to be tied to increase in external assistance? With this everything else would fall in place — such as budget deficit, public enterprise reforms, tax reforms, financial sector reforms, domestic resource mobilization and public expenditure review.

BC: This would be important and critical, but not sufficient. Development is a complex process more than simply marshalling of resources. Allocation of those resources based on priority and their efficient use would be very important in the total context of a development programme and development support. We shall continue to draw the attention of the Government to these issues. We are happy to note the growth in support of the donors in the recent aid meeting after what your country has been through. Adequate attention to priority and efficiency are what the donors would look for.

SZ: Many in the developing world feel that there is a gradual weakening of international financial organizations including the World Bank. Decisions are in many cases taken outside the Executive Board, lending to particular countries have been decided in advance by the G-7 members of the Bank, and there seems to have been a marginalization of developing country Directors on the World Bank Board in the 80s. Would you agree?

BC: I do not think that this is true. I do not deny that major share-holders have a different position because of weighted voting structure in the Bank. There have been occasions of stress and strain, but I firmly believe that the cooperative character of the institution has been retained.

## The Investment Forum

Whether the deliberation reached the level of a brainstorming session or remained an exercise in a repetition of established views, the American Bangladesh Economic Forum deserves credit for organising a discussion on Tuesday on "Resource Mobilisation for stepping up investment in Bangladesh", to use its full title. For one thing, the meeting brought together policy-makers from past and present administrations, representatives of trade bodies and individual businessmen. As a move to promote interaction among a cross-section of the educated community, it was a good start, offering the promise — so we hope — that the scope of participation will be broadened in future deliberations on this and other issues of national importance.

The issues which were brought up for discussion on Tuesday provided few surprises, but they still called for reiteration and reappraisal to clear the air of differences of views, not so much on substance as on modalities. In this context, the Awami League leader Dr. Kamal Hossain was right in his observation that while national objectives called for little further elaboration, what was needed now was a broad consensus on the means for realising the goals. We are all for this much-needed national consensus which this paper has pleaded for many times. However, we should be careful that, on such an issue as promoting economic development through investment and resource mobilisation, the national consensus does not turn out to be an agreement on the lowest common denominator, without that dynamism that stems from divergences of views.

The need for policy-makers to appreciate and even to accommodate divergent viewpoints becomes all the more important when it touches on issues raised by Finance and Planning Minister Safur Rahman. His reiteration of the government's position on deregulation, his reference to the policy to limit the official role only to the maintenance of a favourable climate for investment and his note of warning that the policy of disinvestment, meaning the transfer of state-owned enterprises to the private sector, would be pursued with careful planning are part of the framework of the agenda for the future. The implementation of this framework depends on both specific policy decisions and on the efficiency of the administration in putting such policies into effect. Again, if the drive against corruption fails to yield quick results, traders and industrialists, foreign investors and local entrepreneurs will be filled with the same frustration as they had known in the past. In other words, it is one thing to lay down a good policy, but it is another thing to make it work effectively.

If there is any specific lesson we can derive from the views expressed by the World Bank President Barber B. Conable in his exclusive interview, published elsewhere in this paper, it is this that "development is more complex than marshalling resources." To this we may add, one should not see issues concerned in black and white terms. This being so, one cannot look upon the expansion of the private sector as a "panacea" — the remedy for all ills — but treat it as a "modality of management", to use a phrase from the Conable interview. While we cannot dispute the benefits derived from the operation of the market-oriented economy, a country like Bangladesh should be conscious of limits and constraints, both infrastructural and human, imposed on its choices and options. It will be a good thing if the next discussion organised by the Bangladesh American Economic Forum would focus on this aspect of the country's investment scenario, with special reference to problems which hinder the implementation of otherwise good policy decisions.

## "New World Order" of Partners

The United States faces a new set of challenges on the occasion of the 215th anniversary of its independence. The question that Americans need to pose to themselves — and the answer to which interests us all, especially those of us in the developing world — is what role does the US visualise for itself in the post Cold War period? Having won the ideological war, and better still, with the other side all too eager to adopt the capitalist path, the United States has become the unquestioned global power. With its victory in the Gulf War, and with the Soviets not having so much as uttered a whimper, the military might of the US can be said to have become paramount.

So, what will the Americans do with all this power and might. For one, they can decide to boss and bully and go back to their old 'ugly American' image of the Cold War days. On the other hand they can realise the limits of dominance and build partners instead of subservient allies.

The Gulf War may have demonstrated that the US was the only power which could have intervened. But it also showed that it could not do so by itself. For whatever it was worth, the US needed its allies and that it was only with their support that it could be effective.

In building partnerships especially in the developing world — the US must expand its vision of how and who should receive its economic and technical assistance. The criteria of the days when a Third World country's anti-communist credentials was enough to qualify it for US's unquestioned support regardless of how dictatorial and corrupt a regime was, should now be replaced by humane and honourable ones.

Bangladesh-US friendship can be said to have entered a new phase with the American Task Force's participation in the post-cyclone relief work. The logistical and material support extended by them at that critical moment has earned the US commendation from our people. Fighting poverty, and that too with the weapons of democracy and freedom, is what distinguishes Bangladesh from many other countries. It is hoped that Americans will be sensitive to these factors and the special challenges being faced by Bangladesh in giving us the kind of support and assistance that we need.

Hoping for a "new world order" of partners, we wish the people of the United States many happy returns of the day.

## To the Editor...

### government

Sir, A very unfortunate trend noticed these days is the frequency with which cars are attacked on the streets, on the slightest pretext. Be it a political procession, a students rally, all seem to have a special grievance against private cars and their owners. It is a practice, which, I am sorry to say was perpetuated by supporters of political parties of the country, in their recent movement to overthrow the previous autocratic regime. Now, we are all the innocent victims of a mindless wrath. My query is, is it not the constitutional right of every citizen, to be protected by the government? And if this protection is not forthcoming, should the citizens take steps to protect themselves, and/or take the government to court?

Taking the government to court is a lengthy, expensive process, of course, and one

wonders if human rights organizations would be forthcoming in bearing the costs of such a case. For is it not a question of human right, to demand protection from a legally elected government? As for protecting oneself, it is mind boggling to think of the consequences of such a move by owners of private vehicles. But then, in desperation, self-protection might be the only solution left to the owners.

Parveen Haque  
Dhaka Cantt.

### VAT versus price

Sir, The newly introduced value added tax (VAT) in the current budget is a questionable venture undertaken by the new government. Value addition comprises contribution locally in the form of labour input, energy, money cost, rent etc. In many cases the foreign exchange component of imported items are more compared to finished

item and thus no dollar is saved.

Normally taxes are collected at different stages of production or assembly or services etc. labour, energy, rent, money etc.

A UNDP report on productivity shows that in some textile industry labour cost per metre is more than the selling price. Under such a condition we must see whether per unit cost on any item is more or less equal to C&F price of the same item. There is only fun to produce any thing in the name of industrialisation if it is not competitive in price.

It would be highly appreciated if the government or CAB published regularly the price of items in the international market so that we can ascertain the productivity and efficiency. If the sale volume is less than labour cost what should be the VAT and how to judge it correctly!

Sadik Alee, Dhaka.

## Third World Security for Arms Cuts

Diplomats are trying to devise a mechanism that would convince security-conscious developing nations to cut back on their defence spending. Thalif Deen of IPS writes from New York.

WHEN security-conscious developing nations are asked to cut back on their military budgets, the refrain that echoes through the corridors of international institutions is: Who will protect us from aggressive neighbours, militant separatists and foreign mercenaries?

When the question of excessive military spending was fired at a Third World diplomat, he shot back: "I don't think most developing nations would even think of dropping their defences — Cold War or no Cold War — until and unless the United Nations can set up a mechanism guaranteeing their security."

At a time when the United Nations Development Programme (UNDP), the World Bank and the International Monetary Fund (IMF) are urging developing countries to focus more on human development and less on military spending, the Italian parliament opened a debate on a controversial proposal to curb arms sales to Third World nations. The proposal calls for the provision of economic aid to those countries that stop purchasing sophisticated weapons, reduce military spending and respect human rights.

Ambassador Khofi W Awoonor of Ghana, the chairman of the Group of 77, told IPS it was "unfortunate" that most developing countries allocate a disproportionate portion of their incomes on arms purchases.

"We know it is counter-pro-

ductive," said the head of the group representing 128 developing countries, "but who are the sellers of these weapons?"

The major arms producers and arms sellers, he said, are not the developing countries but the industrialised nations.

For example, in the aftermath of the Gulf War, he pointed out, there was an expectation of an arms control regime in the region. On the contrary, everything now indicates that the flow of arms to the Gulf and the Middle East will be even more intense.

Worse still, he said, was the proposal that some aid packages from industrialised nations to developing countries be linked to their arms spending.

Recently former World Bank president Robert McNamara suggested that financial assistance to Third World countries be linked to the size of their military budgets.

He said preference should be given to those countries spending less than two per cent of their gross national product (GNP) in the security sector.

At the height of the Iran-Iraq war in the 1980s, Iraq reportedly spent close to 50 per cent of its GNP on the military. Currently, two of the world's biggest military spenders are Israel and Saudi Arabia. Israel spends an average of about 27 per cent on defence, and Saudi Arabia about 21.7 per cent.

Overall, the Middle East now spends about 18 per cent of its GNP on defence — compared with 3.8 per cent by the

countries of the North Atlantic Treaty Organisation (NATO).

Noting Third World security concerns, however, McNamara pointed out that any such conditionality on aid should be bolstered by the introduction of a system of collective security provided by the UN Security Council and regional organisations.

In September 1989 the UN General Assembly asked the secretary-general to explore devising a mechanism that could respond quickly to the demands of small states threatened either by armed mercenaries or belligerent neighbours.

The proposal, sponsored by the Maldives, was prompted by several attempted coups against the tiny Indian Ocean island by foreign mercenaries.

Fighting a battle for survival, the Maldives sought assistance from several countries — including India, Sri Lanka, Pakistan, Malaysia and Singapore — to recover the militarily weak island nation from the hands of mercenaries.

The secretary-general is expected to respond to the General Assembly next September.

A 1985 study by the Commonwealth secretariat on the security of small states says that in practice no nation ever seeks to defend itself alone.

During the days of the Cold War, the report said, even the two superpowers deemed it necessary to build military alliance systems supplemented by a network of other friendly nations on whose goodwill and active support they had to rely on to defend their territory.

The first instinct of any nation state is self-preservation, and no country can ensure its security unless it is equipped to fight for its own survival. Diplomats now hope to add an alternative — its sovereignty and territorial integrity protected by the United Nations.